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# KORN/FERRY INTERNATIONAL

# 1984 ANNUAL BOARD OF DIRECTORS STUDY

# OF RETAIL COMPANIES

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Summary of Findings

On a question-by-question basis, the following findings relate directly to retail industry respondents (Table 1). Where appropriate, comparisons are made with all responding corporations in our study.*

1. Size of Board (Table 2)

Boards of directors of retail respondents have an average of 13 members -- the same as for all respondents. The largest retailers (with revenues of $2 billion or more) however, average a total of 14 directors.

2. Inside Directors vs. Outside Directors (Table 2)

Although retailers have the same average board size as all respondents, the retail boards are composed of one more inside directors and one less outside director than the boards of all respondents. Seventy-six percent prefer that more than half their board come from outside the company

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* This year, 603 corporations responded to our Annual Study. Industrial and service corporations account for 73 percent of the total of which 215 have revenues in excess of $1 billion. Banks and other financial institutions account for 12 percent, insurance companies for nine percent and retailers for six percent.

(compared to 81 percent of all respondents), while only 27 percent prefer three-quarters or more be outside directors (vs. 37 percent of all respondents).

3. Is the Chairman also the CEO?
   Is the CEO also the COO (Table 3)

   Seventy-six percent of the retail respondents report that their chairman is also their chief executive officer. Forty-two percent note that their chief executive officer is also their chief operating officer.

4. Board Composition (Table 4)

   Retailers continue to rely on senior executives of other companies as the primary source for outside directors. However, the percentage of retailers having these executives on their boards has decreased. Now at 76 percent, it is down from 83 percent last year and is the lowest of all groups responding to this study. Also, retired executives of other companies (the second largest source of outside directors) have lower representation, down from 67 percent last year to 64 percent this year.

   Sixty-one percent of the retailers have women on their board -- well above the 43 percent for all respondents

(Table 4A). Among the largest retailers ($2 billion and over), 81 percent have women on their boards -- the highest percentage of any responding group to the study. Retailers primarily draw their women outside directors from the ranks of senior executives of other companies and academia (Table 4B). Minorities are on 36 percent of retail boards, compared with 26 percent of all respondents. They are primarily senior executives of other companies and academicians.

Other groups which are highly represented on retail boards include academicians (on 55 percent), retired or previously employed corporate officers (on 52 percent) and major shareholders who are not officers of the company (on 42 percent). In fact, retailers have the largest percentage of major shareholders who are board members of all the respondents.

Over the past five years, there have been other major shifts in the composition of retail boards. Along with senior executives of other companies, other groups experiencing a significant decrease in representation include:

- Retired or previously employed corporate officers (from 60 percent to 52 percent).
- Commercial bankers (from 34 percent to 27 percent).

- Attorneys who provide legal services to the company (from 37 percent to 27 percent).
- Investment bankers (from 31 percent to 24 percent).

Conversely, groups experiencing significant increases in representation include:

- Women (from 49 percent to 61 percent).
- Ethnic minorities (from 23 percent to 36 percent).
- Academicians (from 49 percent to 55 percent).
- Former government officials (from 9 percent to 15 percent).
- Non-U.S. citizens (from none five years ago to 9 percent today).

5. Committees

The most prevalent committees among the retail respondents continue to be the audit committee (now reported by 100 percent of the retailers), the executive (reported by 91 percent), and the compensation (reported by 85 percent) (Table 5A). Along with the insurance companies, retailers lead in the use of executive committee. The 91 percent reporting it is up from 83 percent last year and is considerably above the [illegible] percent of all respondents citing its use.

Fifty-eight percent of the retailers have a nominating committee. Of those, 68 percent note that the nominating committee participates in board committee appointment, the most of all respondents. With the compensation and executive committees, the nominating committee plays a significant role in the management succession process in retail organizations.

The public affairs and executive committees are the largest, averaging six directors each. All other average four or five. Overall, committee size increased this year with the executive and benefits committees each gaining a member. The audit and compensation committees are composed entirely of outside directors while the executive and finance have the most inside directors -- two (Table 5B).

Except for the executive, which meets twice, and the compensation, which meets four times, all other committees average three meetings per year (Table 5C).
Forty-six percent of the retail respondents believe the amount of time devoted to committees is increasing.

6. Compensation (Table 6)

Seventy-six percent of the retailers compensate their outside directors on an annual plus per-meeting basis -- the smallest percentage of all respondents. Conversely,

they have the highest percentage paying an annual fee only (18 percent vs. 13 percent for all respondents) and a per-meeting fee only (6 percent vs. 2 percent).

- Annual Plus Per-Meeting Fee (76 percent of the respondents)

The retail respondents increase the total average annual compensation for their outside directors by 13 percent this year to $19,120, compared with $16,950 last year. This is six percent more than the total compensation for all respondents ($18,090). The total comprises an average annual fee of $13,800 and an average per-meeting fee of $634.

The upper quartile average for retailers, included in this section for comparative purposes, is $27,500 -- up eight percent from last year's $25,410 but somewhat below the $28,390 average for all respondents.

- Annual Fee Only (18 percent of the respondents)

For retailers using this method of compensation, the average annual fee is $13,700 -- up ten percent from last year's $12,500. The average for all respondents is $16,100.

- Per-Meeting Fee Only (6 percent of the respondents)

For retail directors compensated in this manner, the average per-meeting fee is $275.

7. Committee Compensation (Table 7)

Nearly all the retail respondents pay their outside directors additionally for committee service. The 97 percent reporting this extra compensation is a high for the study and compares with 89 percent for all respondents. But, as with all respondents, the method of compensation has shifted. While most still pay a per-meeting fee only, the percentage paying in this manner has dropped considerably from 73 percent last year to 56 percent this year. The shift has been to the annual plus per-meeting fee system of compensation -- up from 19 percent last year to 34 percent this year. Six percent pay a per-meeting fee only.

Among retailers paying a per-meeting fee only, average committee fees range from $400 to $620 per meeting with an overall average of $570. The average total compensation for outside directors receiving annual plus per-meeting fee ranges from $2,180 to $4,100 per year with an overall average of $2,650. Committee chairmen are generally compensated at a higher rate than members.

8. Additional Compensation Information (Table 8)

Forty-two percent of the retail respondents raised outside director fees an average $3,333 during the past 12 months. This is significantly more than the average increase of $2,850 for all respondents and probably accounts for the total average compensation of retail directors outpacing the average for all respondents this year. One-third of the retailers project increasing board fees an additional $4,390 during the next 12 months.

The highest paid outside retail director earns an average $23,050 per year for all board services exclusive of any consulting arrangements. This represents a 21 percent increase over last year's average of $18,980 and brings retailers almost to the overall average of $23,100. The upper quartile average in this category is $42,180 for retail directors -- higher than the average $39,270 for all directors (Table 8A). Twenty-one of the retail respondents have outside directors who also receive consulting fees.

As with all directors, benefits are becoming an increasingly important part of compensation plans for outside directors of retail companies. Travel expense reimbursement and directors' liability insurance are now commonly included, reported by 91 percent and 94 percent respectively. More than half allow their outside directors

to defer board fees until retirement. Fifteen percent provide retirement income plans (up from 6 percent two years ago). Other benefits which have made significant gains this year include matching educational gifts programs (cited by 27 percent vs. 17 percent last year), life insurance (21 percent vs. 13 percent) and accident insurance (39 percent vs. 33 percent). Retailers, however, still lag behind all respondents in the benefits they provide (Table 8B).

Eighty-eight percent of the retailers have procedures whereby directors annually review and establish appropriate compensation for their chief executive officers as well as for other senior officers. Ninety-seven believe that their outside directors are adequately compensated -- the highest percentage expressing this view of all groups participating in the study.

9. Board Practices and Policies (Table 9)

The retail respondents average seven regular board meetings per year -- one less than the average for all respondents. Sixty-seven percent hold at least one of these meetings outside their headquarters or major facility city.

The estimated numbers of hours outside directors of retail companies devote annually to board-related business

increased substantially this year to 130 hours (up from 93 last year and up from 71 five years ago). If compensated on an annual plus per-meeting basis, these directors earn an average $147 per hour -- slightly more than the $145 hourly rate for all respondents. The upper quartile average number of hours for retail directors is 181 (Table 9A).

Although 21 percent of the retail respondents had an outside directors resign from the board, primarily due to retirement, 55 percent added new outside directors to their boards. In selecting and identifying new directors, retailers continue to rely heavily on the recommendations of their chairman and other board members. The use of the nominating committee, however, continues to grow. This year, 52 percent cited its use in the selection process, up from 47 percent last year (Table 9B). Corporate experience continues to be the primary consideration in asking prospective directors to sit on the board (Table 9C). Thirty-three percent had a prospective director decline an invitation to serve on their board -- more than double the 16 percent for all respondents and the highest percentage reported in the study.

10. Board Issues (Table 9)

When asked to rank the relative importance of various issues facing corporate boards today, retail companies, like all respondents, rate financial results well above the other issues. Eighty-two percent ranked it first, second or third. Strategic planning, the second most important issue, was ranked in as one, two or three by 55 percent. Other significant issues include financing/capitalization, day-to-day operations and managerial succession.

## TABLE 1 - PARTICIPATING COMPANIES

Thirty-three of America's major retailers participated in our Eleventh Annual Study.

| Size (Sales) | No. of Retailers | % |
|---|---|---|
| Under $2 billion | 12 | 36.4% |
| $2 billion and over | 21 | 63.6% |
| TOTAL | 33 | 100.0% |

| Stock Exchange | No. of Retailers | % |
|---|---|---|
| New York Stock Exchange | 26 | 78.8% |
| Over-the-Counter | 3 | 9.1% |
| Other | 4 | 12.1% |
| TOTAL | 33 | 100.0% |

## TABLE 2 - PRESENT NUMBER OF BOARD MEMBERS

| Size of Company | Average Number Inside Directors | Average Number Outside Directors | Average Number Directors |
|---|---|---|---|
| Under $2 billion | 4 | 7 | 11 |
| $2 billion and over | 5 | 9 | 14 |
| Average | 5 | 8 | 13 |

## TABLE 3 - CHAIRMAN ALSO CEO, CEO ALSO COO

Is the Chairman of the Board also the Chief Executive Officer?
Is the Chief Executive Officer also the Chief Operating Officer?

| | % CEO | % COO |
|---|---|---|
| Yes | 75.8% | 42.4% |
| No | 24.2% | 51.5% |
| No Response | --- | 6.1% |
| TOTAL | 100.0% | 100.0% |

TABLE 4 - BOARD COMPOSITION

4A. Are one or more of the following individuals on the board?

| | 1979 Retailers | 1983 Retailers | 1983 All Companies Surveyed |
|---|---|---|---|
| Senior Executive (other companies) | 80.0% | 75.8% | 89.4% |
| Retired or Previously Employed Corporate Officer | 60.0% | 51.5% | 46.9% |
| Commercial Banker | 34.3% | 27.3% | 33.2% |
| Attorney (provides legal services to the company) | 37.1% | 27.3% | 30.2% |
| Academician | 48.6% | 54.5% | 51.7% |
| Investment Banker | 31.4% | 24.2% | 22.9% |
| Major Shareholder (not officer of the company) | 40.0% | 42.4% | 30.4% |
| Attorney (does not provide legal services to the company) | 25.7% | 27.3% | 34.3% |
| Former Government Official | 8.6% | 15.2% | 30.2% |
| Female | 48.6% | 60.6% | 43.4% |
| Ethnic Minority Representative | 22.9% | 36.4% | 25.9% |
| Non-U.S. Citizen | --- | 9.1% | 15.4% |
| "Professional" Director | N.A. | 21.2% | 18.2% |
| Retired Executive (other companies) | N.A. | 63.6% | 70.0% |

4B. From which of the above functions are most women and ethnic minorities drawn?

| Function | % Women | % Minorities |
|---|---|---|
| Senior Executives (other companies) | 40.0% | 41.7% |
| Academicians | 25.0% | 25.0% |
| Former Government Officials | 10.0% | 8.3% |
| Attorneys (do not provide legal services) | 10.0% | 16.7% |
| Retired Executives (other companies) | 20.0% | --- |

TABLE 5 - COMMITTEES

5A. Which of the following standing committees does the board have?

| Committee | 1979 Retailers | 1983 Retailers | 1983 All Companies Surveyed |
|---|---|---|---|
| Audit | 100.0% | 100.0% | 99.2% |
| Executive | 88.6% | 90.9% | 80.4% |
| Compensation | 91.4% | 84.8% | 84.6% |
| Finance | 40.0% | 42.4% | 34.3% |
| Nominating | 60.0% | 57.6% | 59.4% |
| Public Affairs | 8.6% | 18.2% | 12.6% |
| Benefits | N.A. | 36.4% | 34.5% |

5B. What is the composition of each committee?

| Committee | Average Number Inside Directors | Average Number Outside Directors | Average Number Directors |
|---|---|---|---|
| Audit | 0 | 4 | 4 |
| Executive | 2 | 4 | 6 |
| Compensation | 0 | 4 | 4 |
| Finance | 2 | 3 | 5 |
| Public Affairs | 1 | 5 | 6 |
| Nominating | 1 | 4 | 5 |
| Benefits | 1 | 3 | 4 |

5C. How many committee meetings were held during the past twelve months?

| Committee | 1982 Average Number of Meetings | 1983 Average Number of Meetings |
|---|---|---|
| Audit | 3 | 3 |
| Executive | 4 | 2 |
| Compensation | 3 | 4 |
| Finance | 2 | 3 |
| Public Affairs | 2 | 3 |
| Nominating | 1 | 3 |
| Benefits | 3 | 3 |

TABLE 6 - COMPENSATION

Annual plus Per-Meeting Fee (75.8% of the Respondents)

| Annual Fee Amount | % |
|---|---|
| Under $7,000 | 4.0% |
| $7.000 - $10,999 | 12.0% |
| $11,000 - $13,999 | 36.0% |
| $14,000 - $16,999 | 28.0% |
| $17,000 - $19,999 | 12.0% |
| $20,000 and over | 8.0% |
| TOTAL | 100.0% |
| Average Annual Fee | $13,800 |

PLUS

| Amount Per Meeting | % |
|---|---|
| Under $500 | 4.0% |
| $500 - $599 | 48.0% |
| $600 - $799 | 32.0% |
| $800 and over | 16.0% |
| TOTAL | 100.0% |
| Average Per-Meeting Fee | $634 |

EQUALS

| Total Annual Compensation | % |
|---|---|
| Under $14,000 | 12.0% |
| $14,000 - $16,999 | 24.0% |
| $17,000 - $19,999 | 20.0% |
| $20,000 - $24,999 | 32.0% |
| $25,000 and over | 12.0% |
| TOTAL | 100.0% |
| Average Total Annual Compensation | $19,120 |

Annual plus Per-Meeting Fee (continued)

| Type and Size of Company | Average Compensation | Upper Quartile Average |
|---|---|---|
| Retailers | $19,120 | $27,500 |
| Banks and other Financial Institutions | $17,040 | $25,930 |
| Insurance Companies | $15,050 | $24,520 |
| Industrials | | |
| Under $200 million | $ 9,270 | $13,510 |
| $200 million - $399 million | $14,680 | $21,280 |
| $400 million - $599 million | $16,740 | $28,940 |
| $600 million - $999 million | $16,780 | $24,260 |
| $1 billion - $2.999 billion | $19,490 | $26,810 |
| $3 billion - $4.999 billion | $23,840 | $33,030 |
| $5 billion and over | $27,940 | $33,510 |
| Average | $18,090 | $28,390 |

TABLE 7 - COMMITTEE COMPENSATION

7. Are outside directors paid an extra fee for serving on a committee?

| | % |
|---|---|
| Yes | 97.0% |
| No | 3.0% |
| TOTAL | 100.0% |

If yes, how are they compensated?

| Compensation | % 1982 | % 1983 |
|---|---|---|
| Per-Meeting Fee Only | 73.1% | 56.2% |
| Annual plus Per-Meeting Fee | 19.2% | 34.4% |
| Annual Fee Only | 7.7% | 6.2% |
| No Response | --- | 3.1% |
| TOTAL | 100.0% | 100.0% |

## TABLE 8 - ADDITIONAL COMPENSATION INFORMATION

8A. How much did the highest paid director receive in 1983 for all board service activities exclusive of any consulting arrangement?

| Amount | % |
|---|---|
| Under $7,000 | 9.1% |
| $7,000 - $16,999 | 12.1% |
| $17,000 - $19,999 | 15.2% |
| $20,000 - $24,999 | 27.2% |
| $25,000 - $29,999 | 15.2% |
| $30,000 - $39,999 | 12.1% |
| $40,000 and over | 9.1% |
| TOTAL | 100.0% |
| Average | $23,050 |

Highest paid director

| Type and Size of Company | Average Compensation | Upper Quartile Average |
|---|---|---|
| Retailers | $23,050 | $42,180 |
| Banks and other Financial Institutions | $23,980 | $37,460 |
| Insurance Companies | $22,100 | $42,880 |
| Industrials | | |
| Under $200 million | $11,640 | $18,910 |
| $200 million - $399 million | $16,800 | $22,420 |
| $400 million - $599 million | $17,440 | $26,580 |
| $600 million - $999 million | $20,590 | $31,100 |
| $1 billion - $2.999 billion | $25,780 | $38,220 |
| $3 billion - $4.999 billion | $31,890 | $43,170 |
| $5 billion and over | $35,770 | $54,250 |
| Average | $23,100 | $39,270 |

8B. What benefits are included in the compensation plan for outside directors?

| | % Retailers | % All Companies Surveyed |
|---|---|---|
| Travel Expense Reimbursement | 90.9% | 92.4% |
| Directors Liability Insurance | 93.9% | 90.0% |
| Deferral of Board Fee Until Retirement | 51.5% | 60.2% |
| Accident Insurance | 39.4% | 48.3% |
| Travel Expenses for Spouse | 24.2% | 25.4% |
| Matching Educational Gifts Program | 27.3% | 44.3% |
| Life Insurance | 21.2% | 20.1% |
| Retirement Income Plan | 15.2% | 18.7% |

## TABLE 9 - BOARD PRACTICES AND POLICIES

9A. How many hours (estimated) do directors spend annual on board matters including review and preparation time, meeting attendance and travel?

| Number of Hours | % |
|---|---|
| 40 and under | 9.1% |
| 41 to 70 | 9.1% |
| 71 to 100 | 12.1% |
| 101 to 160 | 42.4% |
| 161 and over | 9.1% |
| No Response | 18.2% |
| TOTAL | 100.0% |
| Average | 130 hours |

Hours

| Type and Size of Company | Number of Hours | Upper Quartile Average |
|---|---|---|
| Retailers | 130 | 181 |
| Banks and other Financial Institutions | 109 | 195 |
| Insurance Companies | 116 | 195 |
| Industrials | | |
| Under $200 million | 78 | 124 |
| $200 million - $399 million | 115 | 177 |
| $400 million - $599 million | 94 | 163 |
| $600 million - $999 million | 124 | 189 |
| $1 billion - $2.999 billion | 150 | 203 |
| $3 billion - $4.999 billion | 138 | 193 |
| $5 billion and over | 167 | 236 |
| Average | 125 | 194 |

9B. How are outside directors located for the board?

| | % |
|---|---|
| Recommended by chairman | 81.8% |
| Recommended by board members | 66.7% |
| Nominated by committee | 51.5% |
| Recommended by other corporate officers | 39.4% |
| Executive search | 12.1% |

9C. What are the primary considerations in asking a prospective director to sit on the board?

| | % |
|---|---|
| Corporate Experience | 69.7% |
| Specific Functional Experience | 51.5% |
| Specific Industry Experience | 36.4% |
| Prestige | 15.2% |

TABLE 10 - ISSUES

What is the relative importance of each of the following issues?

| | % Ranking #1 | % Ranking #1 or #2 | % Ranking #1, #2 or #3 |
|---|---|---|---|
| Financial results | 51.5% | 75.7% | 81.8% |
| Strategic planning | 15.2% | 36.4% | 54.6% |
| Financing/capitalization | 3.0% | 15.1% | 39.3% |
| Day-to-day operations | 12.1% | 24.2% | 33.3% |
| Managerial succession | 9.1% | 15.2% | 24.3% |
| Mergers/acquisitions | --- | 6.1% | 9.1% |
| Shareholder relations | 3.0% | 6.0% | 6.0% |
| Corporate ethics | --- | 6.1% | 9.1% |

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